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Bench-Tool Promos to Gain: P. 16
Audio 'Packages' Score: Pp. 3, 18

Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

$2 per copy

VOL. 22, NO. 21 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | OCTOBER 31, 1983

K mart, Wal-Mart To Test Spin-offs

NEW YORK—K mart and Wal-Mart—the nation's No. 1 and No. 2 discounters—are once again testing new spin-off operations.

K mart's entry, opening in Birmingham, Mich., in mid-November, is to be an off-price specialty gift store called Accents. Wal-Mart is planning a Nov. 1 Des Moines opening for DOT Discount Drug, a deep discount pharmacy and H&BA operation fashioned similar to the Drug Emporium or Texas Super Drug.

Accents will occupy a 13,000-sq.-ft. former Kresge store in the Detroit suburb.

A spokesman for K mart said the chain was looking for optimum use of what it considered prime real estate, but noted that the store is considered an experiment with no current plans to expand.

Merchandise for the store is being bought by K mart buyers. Chain management declined to provide additional details on merchandise assortments and price points other than to say they would be brand name gift items at discount prices.

Wal-Mart's DOT will occupy a 25,000-sq.-ft. store formerly occupied in the Iowa city by J. Brannam, a subsidiary of F. W. Woolworth Co. The location has been vacant for nearly one year.

It will feature cut-case merchandise sold at low margins, typically in the 3%-18% range.

DOT is also experimental with no currently announced plans to expand.

The store will be run under the direction of Paul Carter, vp, special divisions for Wal-Mart. It was Carter's division that launched Sam's Wholesale Club in Oklahoma City earlier this year.

Hills Launches 1st 2 Major Captive Labels in Apparel

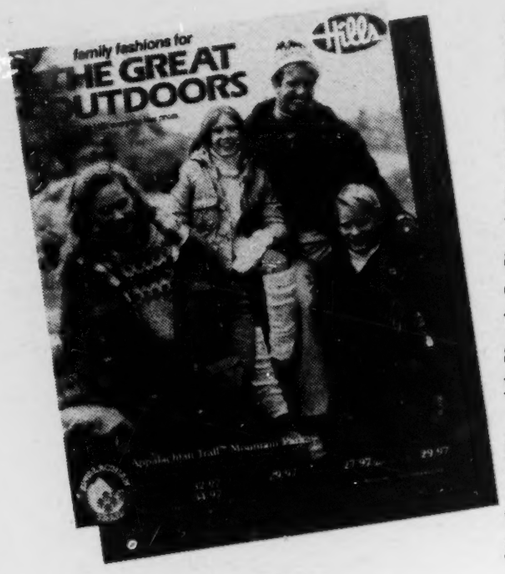
By MARILYN NEERMAN

CANTON, Mass.—Hills has just taken a major new apparel merchandising direction with the introduction of two "captive" or "controlled" label collections—Appalachian Trail and Spring Harbor.

Breaking a long-standing tradition of issuing only three circulars a year, Hills officially launched these two programs in a fourth, eight-page, full-color circular which hit the stores Oct. 16.

Appalachian Trail, billed as "rugged wear for the great outdoors," is, among other thing, Hills' answer to the currently popular "L. L. Bean" look and consists of a variety of items—coordinated parkas, shirts, sweaters, slacks and accessories for men, women and children.

Spring Harbor, like Appalachian Trail, crosses divisional apparel lines. It's a holiday-into-spring group of pastel coordinates in girl's sizes 7 to 14 and in ladies' apparel.



Hills' apparel circular introduces two captive label programs—Appalachian Trail and Spring Harbor.

These two programs represent a more sophisticated stage in the evolution of Hills' use of captive labels in apparel.

At Hills, building apparel volume using the captive label concept began prior to the launch of Appalachian Trail and Spring Harbor, but it's a relatively new Hills priority.

For instance, the captive label program called Workable Separates—for misses' coordinates geared for the career woman—was introduced for spring 1983. The chain uses the captive label Jontz for family activewear such as fleece-backed separates, athletic socks and footwear and duffle bags.

Another captive label, American Girl, was introduced for fall 1983 for washable wool-biend coordinated sportswear for girls.

Several elements distinguish the new Appalachian Trail and Spring Harbor programs from those earlier captive label launches.

For one, they represent Hills' kick-off of major, broad-scope captive label programs. They cross divisional lines, in contrast to Workable Separates, which is for women only, and American Girl, which is for girls only.

(Continued on page 6)

Toy Chains' Home-Computer Biz Soars Despite Contrasting Selling Techniques

Child World Places Emphasis on Service

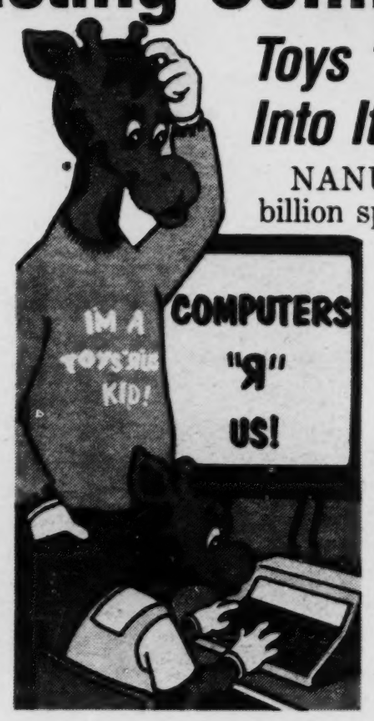
By BRENT H. FELGNER

PARAMUS, N.J.—Child World has created a store within a store in an effort to drive its home computer business—and service has moved to the core of that push.

The new department prototype, which is currently being rolled out chainwide, is completely enclosed on three sides by tall fixtures giving it the appearance of a small computer specialty store.

That's precisely what company merchandisers had in mind when the format was developed and tested several months ago.

(Continued on page 38)



Toys "R" Us Fits Category Into Its Self-service Format

NANUET, N.Y.—Toys "R" Us—the $1 billion specialty toy chain—is out to prove that computers can be successfully merchandised without compromising its self-service philosophy.

The nation's largest toy retailer has taken decisive yet simple steps to mold the service-dependent, high-shrink category into its own pre-existing merchandising concepts and store formats.

Though questions about the long-term viability of that direction remain, the initial results show impressively growing volume—so much so that the chain

(Continued on page 38)

Digest Oct. 31, 1983

HARDWARE

- **More promotions of higher-ticket bench tools are due for the** Christmas season. (p. 16)

CONSUMER ELECTRONICS

- **New packaging of established audio products and an improv-**ing economy are helping discounters' home sound sales. (pp. 3, 18)

HOUSEWARES

- **Hills' new stores in Terre Haute, Ind., have updated their** housewares presentation, but in moderation. (p. 22)

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Isaacs Busy Creating New Look For Heck's

By KAREN PAXTON

NITRO, W. Va.—"I don't leave anything alone."

In the nine months he's been back here as chairman and ceo of Heck's, Russell Isaacs has been involved with everything from heading up an experimental buying trip to the Orient to mandating a new look for the company house organ, *Heck's World*, to having red and beige borders painted on the dark brown warehouse buildings.

By next year, the impact of a host of projects Isaacs has set in motion will start to show up at store level. According to his plans:

—All departments will be planogrammed at headquarters.

—All stores will be reset with a race-track aisle and speed tables.

—The apparel offering will be reshuffled to include expanded assortments of ladies, sportswear, maternity clothing, hosiery and shoes. Soft goods will take up 35% of total floor space vs. 25% at present.

—Domestics will be given a new fashion emphasis.

—Store sku count will be trimmed from 40,000 to about 33,000.

—An estimated $40 million open-to-buy investment in a new direct import program is expected to inject the mix with hard and soft goods with sharper price points.

—POS systems will track sales by sku number rather than by department number.

But, while Isaacs seems to be involved with just about everything, company executives find he has a knack for listening to problems, defining objectives and then leaving each person to do the job.

Unlike Fred Haddad, his predecessor, who was described by one Heck's executive as a hip-pocket entrepreneur, Isaacs is seen as a professional executive who has taken the entrepreneur's room at the top

(Continued on page 8)

"We've got all the pieces in place. Now we've just got to get everything running together."
—Russell Isaacs, chmn./ceo, Heck's.

Wal-Mart's audio merchandising strategy has placed high-end component systems next to low-end compacts, as seen in the Bentonville, Ark., store. The chain expects a pickup in fourth-quarter audio sales. *(DSN photo)*

Price Club Will Inaugurate a Fee Of $15 For Its Group Members

SAN DIEGO—Price Club is taking another step to set itself apart from its imitators.

Starting next month, the wholesale warehouse operator will impose a $15 annual fee on new "group" members. Its 600,000 current group members will begin paying the annual fee next June.

Despite the fee, these members will also continue to pay 5% more than wholesale members for goods. "Group" members are individuals who belong to selected groups, such as Government agencies, credit unions and utility companies that are eligible for membership.

Price Company, which currently operates 12 Price Club stores in California and Arizona, indicated it will use the fees to reduce chainwide gross margins by roughly 2% from the current 11% level. Trade experts believe that by lowering prices, Price Club intends to lock in more strongly its prized base of 80,000 wholesale customers who account for 60% of chain volume.

Although Price Club has declined to talk further about its latest move, industry observers generally feel it makes sense.

Jim Sinegal, president of Costco Wholesale, Seattle, which opened its first warehouse outlet last month, calls the strategy "a brilliant, gutsy move that helps widen the gap between themselves and others. People absolutely believe Price Club will use the fees to lower prices. If I were in their position, with their following and their low-price reputation, I'd do the same."

Yet, Joe Ellis, analyst at Goldman Sachs, New York, questions Price Club's need to lower prices, precisely because the chain is well entrenched in densely populated markets which offer no direct wholesale outlet competition.

Others also acknowledge the strength of Price Club's markets. "You just don't find LA's in Oklahoma," said a spokesman for Sam's Wholesale Club, Midwest City, Okla.

By imposing the fee, said trade experts, Price Club plans to boost average customer transactions from their current

(Continued on page 37)

New Audio Packages Up Home-Sound Biz

Nationwide DSN Report

New packaging of established audio products and an improving economy appear to be at least partially responsible for pushing discounters' home sound offerings out of the doldrums.

While fourth-quarter sales may not be particularly strong, they do seem poised for a substantial improvement over last year, with some chains projecting as much as a 25% pickup in volume.

The typical discounter's audio assortment—usually perched on the low-end—will still be forced to compete with other consumer electronics offerings, including home computers, digital audio disks, compact disks and steadily falling prices for high-end component equipment.

In an effort to do just that, some chains have begun a move toward the so-called "package" or "floor rack systems," replacing some of the space formerly occupied by compacts. While containing basically the same internal electronics as the compacts, the rack systems offer a component look combined with larger speakers and a moderate price tag.

"I've heard it described as 'pizzazz at a price,' " said Ames' merchandise manager Jerry Fine. "It's a good business."

Price points run at less than $200 promotionally, according to Fine, and as high as $400. As a result, the rack systems have eaten into the higher end compact system business.

"Compacts were the rage a few years ago," Fine said. "Now you can sell compacts at the lower prices but when you get into the higher price points you're competing with the quasi-components."

(Continued on page 18)

HRT Due to File Reorganization Plan; Signs Prelim Schottenstein Agreement

LOS ANGELES—The Chapter XI reorganization efforts of HRT Industries, parent of Zodys discount stores, were expected to come to a head at presstime.

The company was due to file its reorganization plan with the United States Bankruptcy Court for the Southern District of New York (in New York City).

This is a preliminary to obtaining court approval of its disclosure statement, which would then be sent to creditors.

The disclosure statement is part of the package of information HRT will supply to creditors to obtain their favorable vote on the company's reorganization and debt repayment plan.

HRT is aiming for a creditor's vote by the end of the year.

The company proposes to repay creditors 55% in cash and 35% in stock. Creditors are owed about $127 million.

The company also expected to have its stockholders vote on the reorganization plan, as it involves a major change in the firm's ownership. That vote was expected to be held in late October or early November.

In a related action, HRT has signed a preliminary agreement with Schottenstein Stores Corp. The latter is directly tied to the reorganization effort in that Schottenstein would fund the plan in return for major control of HRT.

Schottenstein would obtain 55% of HRT's stock in return for putting up $12 million in cash

(Continued on page 34)

Fauber: K mart to Reach $25B in 1988 'In 1983 Dollars,' $18.5B-Plus For '83

NEW YORK—"Twenty-five billion dollars in 1983 dollars."

That was the volume K mart chairman Bernard Fauber predicted the company would hit in 1988.

Speaking before the New York Society of Security Analysts, Fauber said corporate sales for fiscal 1983 would comfortably exceed $18.5 billion, and earnings would exceed 6% each year through 1988. Thus, K mart's profit to sales ratio should be back to where it was in the late seventies, he said. In 1979, K mart's net income margin was 2.8%.

To hit those goals, K mart will push deeper into the new merchandising directions it began introducing almost two years ago: emphasizing branded goods, refixturing and reformatting the stores, and creating new businesses.

"The low-income shopper myth" is no longer true, he said, and the company is no longer "a blue-collar operation." He pointed to K mart research which illustrated the chain's drawing power among higher-income and better educated consumers. Fauber added that in the last 30 days, 52% of the United States population had visited a K mart store.

Reviewing recent changes, Fauber highlighted these:

- A new contemporary display for soft goods, particularly in ladies' wear involving the Jonathan Logan program. The label, which appeared in over 400 stores last year, has been used for ladies' sports and activewear and will now be expanded to other categories such as suits and dresses. In the summer of 1984, the program will be moved ino more stores —not necessarily on Logan fixtures—and eventually will go chainwide. It will be on both domestic and imported merchandise.
- A new domestics prototype, "soft goods for the home", offering more department store appeal. Currently placed in 90 locations, the department will expand to 400 to 500 units in the next 18 months.
- Kitchen Korner, fusing housewares and kitchenware departments. The department was launched in April and is currently in 537 stores and will eventually be expanded to all "full-size locations." A modified version will appear in remaining units.
- Home electronic centers specializing in personal computer sales below $500. Over 700 departments are planned to be in operation by the end of 1983.
- Home care centers for the DIYers. There will be 41 installed centers by year's end, expanding to 500 departments in the next five years.
- New category introductions of nutrition and health centers, wicker shops, unpainted furniture, expanded book departments and upgraded stationery

(Continued on page 38)

Zimmerman Still Chmn., CEO

Poole Service Mdse. Prez, COO

NASHVILLE—Service Merchandise, after a three-year search, has found an executive who meets the cataloger's three criteria for president and chief operating officer, and named James E. Poole to the post.

Background Noted

Poole, 59, had been head of the natural resources group for conglomerate Gulf & Western and disposed of that operation as part of the company's scaling down of its operations.

Raymond Zimmerman, the cataloger's chairman and chief executive officer, relinquished the post of president to Poole. He said: "Three years ago when I first started looking for a president I announced that my criteria were:

"• Age 59, so he wouldn't inhibit our existing people or stop them from having a chance at the big job;

"• A man with a strong financial and planning background to get us on the right road for budgeting, planning, systemizing and things like that, and

"• Someone who has never been in retailing so he wouldn't come in and change us and make us something that we're not."

The company needed someone to serve as president and coo, Zimmerman said, "because we are going through dramatic growth years and need strengthened and additional leadership and management."

The cataloger, which passed the $1 billion sales mark in 1981, started to diversify by acquiring a computer store chain and a warehouse home center operation this year.

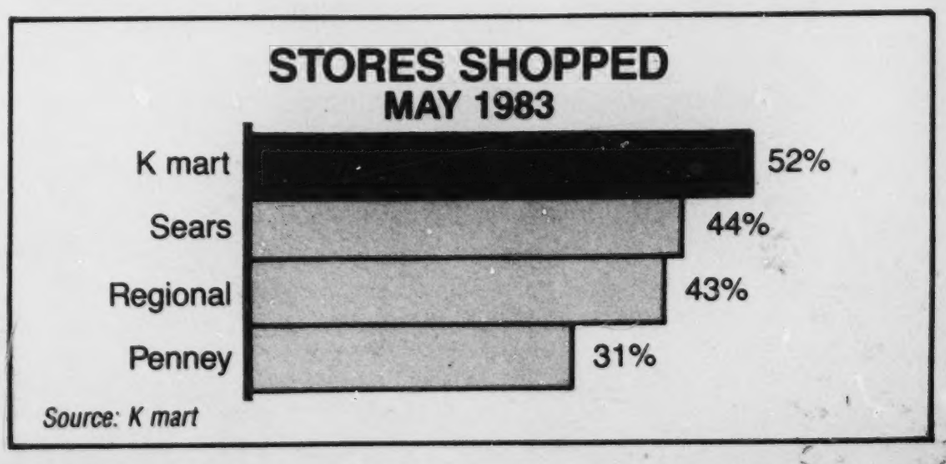
The showroom operation, however, remains the core of the company's business, with 155 stores projected for the end of the year. The company distributed 10 million catalogs this fall, more than any coordinator or independent showroom chain other than Best Products.

Zimmerman explained that some of his responsibilities were turned over to Poole—financial, data processing and real estate—but "merchandising and operations continue to report to me."

Appointment Hailed

Zimmerman called Poole "one of the most highly regarded professional managers in the country."

He knew Poole as a local businessman in Nashville who was head of Marquette Cement. That company was moved from Nashville to Chicago in 1974 and acquired by Gulf and Western two years later. In 1978, G&W's natural resources were put under Poole and that group operation was moved to Nashville.



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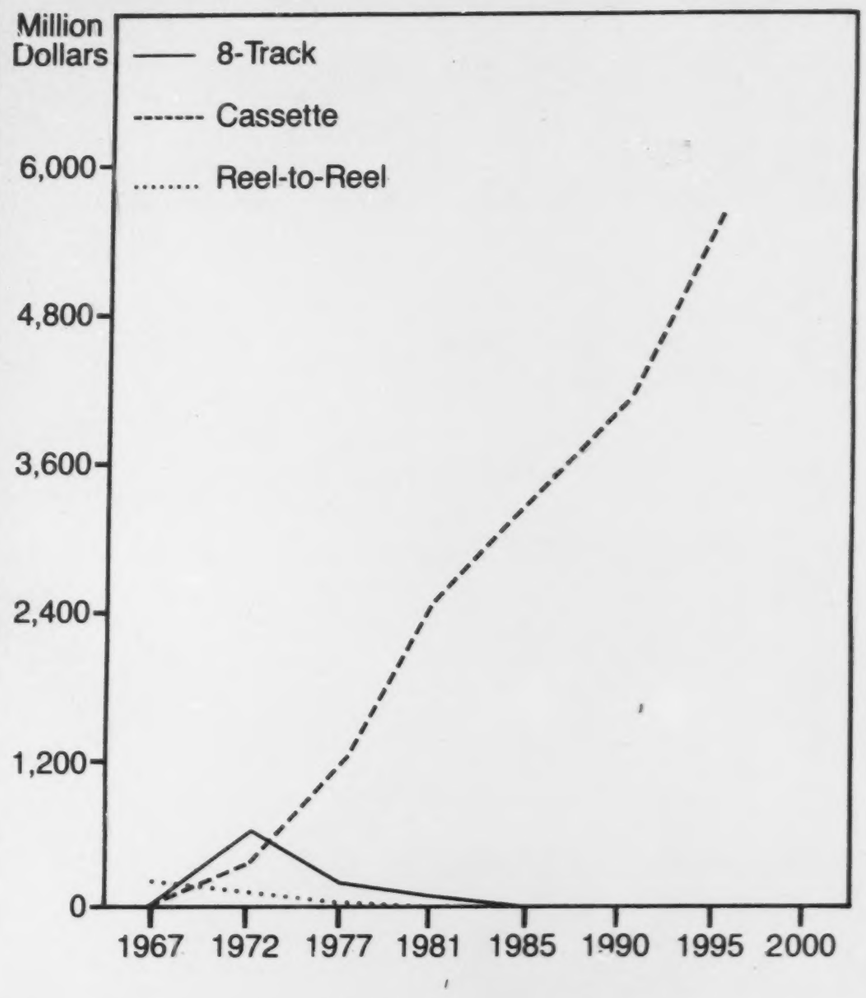
CONSUMER ELECTRONICS

Audio Tape Recorder Sales



Source: Home Entertainment of the Future; *Predicasts, Cleveland, 1983.*

New Audio 'Packages' Aid Sales

(Continued from page 3)

In part, because of the exploding electronics market and the resulting cross-CE category competition, Ames has doubled the size of its CE departments, he said. From a buying standpoint, there has also been a move to segregate its electronics categories in order to avoid situations where a home computer might compete with a stereo system for an open-to-buy.

Other chains have taken similar steps.

For Ames, the strategy appears to be paying off. Fine reported higher ticket sales with greater volume overall, much earlier than last year; this, despite slightly lower prices.

Most chains appear to be stepping into the rack systems slowly, apparently in an effort to gauge consumer acceptance of the higher price points. The shifting assortments became most visible during the back-to-school and Labor Day season.

For example, K mart featured two rack systems in advertisements during that period, promoted at $279 and $249. However, the same ads also featured a "bookshelf component" system at $138 and two compact systems, priced at $149 and $169.

Target took a similar approach, featuring a rack system at $179.99, a home-and-go unit at $149.99 and a compact at $99.99, all on promotion.

But, in terms of price points, Bradlees has taken one of the boldest steps, venturing to $399.95 and $279.99 on sale, for two rack systems featured in its ads. Those same units are everyday priced at $449.95 and $399.95.

Murphy's Mart, too, has leaped into the higher price points, offering three rack systems, everyday priced at from $199 to $499. The three form part of the chain's core audio offering, which includes seven compact stereo systems, priced from $139 to $299, according to merchandise manager Frank Remaley.

"You know, last year was a tragic year for compacts," he said, "but right now it's vastly improved. I'm looking for about a 25% increase."

Despite last year's poor performance, Murphy's Mart has maintained the audio section's space allocation at 1981 levels, rather than cutting back, according to Remaley. The size of the assortment has also remained essentially constant.

ALCO has taken a more conservative approach to the package systems, a decision that took into account its mostly rural trading areas. The chain carries one package system priced at $299 and promoted at $249. A second unit has been added occasionally during peak selling periods, according to buyer Richard Millner.

Sales Information

Compacts have remained at the core of the line where they have experienced steadily healthy sales, he said. However, sales have recently been strongest at the extreme low end and high end of the line, with the middle range coming in below expectations.

The compact systems begin at $99, everyday, with the package system's $299 price point at the top end of ALCO's audio line.

But, where most chains have positioned the package systems at the top of their lines, Wal-Mart has taken several steps more by bringing in true high end component systems to its stores, a move that blurs the distinction between it and some specialty stores.

The top-end price point of $799 for a name brand system has accomplished just that objective.

"The image that it creates is certainly good," said Nick White, dmm. "And, at the same time it's proven to be a good mover in terms of actual sales."

That "image" has also contributed heavily to improved sales for other CE products more traditionally found in the discounter, according to Wal-Mart executives. The result has been a new-found customer base.

The U.S. Audio Market

Item	1977	1981	1985	1990	1995
Population (millions)	219.8	229.3	237.6	247.0	256.0
Audio Entertainment Equipment Sales (mil $)	3,612	4,669	6,160	8,165	11,390
Radio Sales (mil $)	1,035	853	1,400	1,800	2,250
Audio Reproduction Equipment Sales (mil $)	2,577	3,816	4,760	6,365	9,140
Tape Recorders (mil $)	1,254	2,564	3,325	4,000	5,625
8-Track	176	26	neg	—	—
Cassette	1,065	2,525	3,315	3,990	5,615
Reel-to-Reel	13	13	10	10	10
Phonograph Sales (mil $)	570	595	350	250	200
% Turntables	61	53	49	45	40
Component Sales (mil $)	753	657	1,085	2,115	3,315
Speakers	508	458	705	1,555	2,485
Amps & Rcvr's	154	124	280	435	680
Microphones	91	74	100	125	150

Source: Home Entertainment of the Future; *Predicasts, Cleveland, 1983.*

Zayre

ZAYRE CORP.
FRAMINGHAM, MASS. 01701

To: Our Manufacturers and Suppliers

Statement of Policy Concerning Gifts

We are taking this opportunity to restate our policy concerning gift-giving, not only during the forthcoming holiday season, but at all times of the year, on any occasion. Gifts, no matter how well intentioned by the donor, tend to shake the moral structure of the firmest business foundations by substituting subjective emotions and motives for objective judgment based on service, quality and price.

Accordingly, for the mutual protection of our suppliers, our employees and the Company, we prohibit our employees from accepting gifts, gratuities, payments or favors of any kind. Any gifts received by our employees will be returned to the donor or donated to charitable organizations. Our employees are advised that violation of this policy is considered to be a grievous matter.

We call upon you to assist us and our employees by refraining from giving or offering such gifts. Your awareness of and cooperation with this policy will foster the continuation of fair business practices that favor our close association.

Best wishes for a happy holiday season and a prosperous New Year.

Sumner L. Feldberg
Chairman of the Board

Maurice Segall
President

Commonwealth Trading, Inc. Newton Buying Corp. NETCO, Inc.